



Montevista Apartments Loan Restructuring & More Affordable Units for Milpitas

June 12, 2018

Milpitas Housing Authority

May 15, 2018 – The Milpitas Housing Authority Commission asked Staff to return with a comprehensive analysis of ALL aspects of BRIDGE HOUSING's request to restructure the \$3,000,000 loan for Montevista Apartments.

Montevista Apartments

- 306 unit development
 - 163 affordable units
 - 143 market rate units
- Built in 2003 by Bridge Housing
- Cost over \$30,000,000 to build

Affordable Housing Financing

- Affordable housing projects take multiple funding sources in forms of deferred senior and junior loans
- Senior loans – provide for the majority of the project, or the largest risk/investment
- Junior loans – smaller loans that are require to subordinate

What is Lien Priority?

- Position in which the lender is being paid back
- Junior loans are required to subordinate or acknowledge this position
- Subordinate: acknowledges lower lien position in reclaiming payment

Montevista Financing

Current Lien Priority	Contribution	Requires Subordination?
CalHFA 1 st Mortgage	\$25,219,787	Senior, No
Santa Clara County Loan	\$4,410,571	Junior, Yes
City of Milpitas Loan	\$3,000,000	Junior, Yes
Santa Clara HOME Loan	\$443,448	Junior, Yes
Santa Clara CDBG Loan:	\$260,520	Junior, Yes

City is being asked to do 5 things:

- 1) Accept a lower position in loan re-payment (as does the County) for the short term through January 2019 (“subordinate our position”) and long term subordination to CalHFA.
- 2) Waive re-payment of interest on the loan, accrued through 2016.
- 3) Revise the interest rate, at 5.45% interest, to the current federal rate, which is currently 3.05%.
- 4) Agree that loan payments to the City (at lower interest rate) will be calculated “*pari pasu*” and are estimated to be \$200,000 annually.
- 5) Agree to forego new loan payments (principal plus new interest) for 10 years.

Break Down of Actions

1. Accept a lower position in loan re-payment until January 2019 (“subordinate our position”) and long term subordination to CalHFA (“subordinate our position”).

- March, 2018 - BRIDGE was still in discussion with both the County and state lenders in buy-out strategy.
- April - Details were finalized.
- May - Request to Council.

Short Term Subordination

- Buy out of Limited Partner for \$7,519,000
 - Limited Partner was part of Tax Credit financing
- Short term Loan from LIIF Housing Preservation Fund, LLC
 - Through January 2019
- Benefit: If limited partner is still in the project, could raise rents of current tenants, possibly displacing them

Long Term Subordination

- Refinance with CalHFA
 - Typical for projects to refinance in this way when the 15-year LIHTC investor buy-out option is presented.
 - Buy out short term LIIF loan
- Additional funds for rehabilitation to preserve existing affordable housing stock.

Montevista Financing

Current Lien Priority	June 2018-January 2019 Lien Priority (Short Term)	January 2019-onward Lien Priority (Long Term)
1. \$25,219,787 CalHFA 1st Mortgage	1. \$25,219,787 CalHFA 1st Mortgage	1. \$43,586,366 CalHFA 1st Mortgage
2. \$4,410,571 Santa Clara County Loan	2. \$7,433,589 CDFI Loan	2. 3,500,000 CalHFA Subordinate Loan
3. \$3,000,000 City of Milpitas Loan	3. \$4,410,571 Santa Clara County Loan	3. \$4,410,571 Santa Clara County Loan
4. \$443,448 Santa Clara County HOME Loan	4. \$3,000,000 City of Milpitas Loan	4. \$3,000,000 City of Milpitas Loan
5. \$260,520 Santa Clara County CDBG Loan	5. \$443,448 Santa Clara County HOME Loan	5. \$443,448 Santa Clara County HOME Loan
	6. \$260,520 Santa Clara County CDBG Loan	6. \$260,520 Santa Clara County CDBG Loan
Total Amount of Loans: \$33,334,326	Total Amount of Loans: \$40,767,915	Total Amount of Loans: \$55,200,905

2. Forgiveness of interest on the loan, accrued from 2000 through 2016.

- Interest accrued is \$1,561,354.
- Most financially impactful request
 - alters the expectations of what the city “invested” in relation to what the city is “getting” in value.
- If approved, BRIDGE will put that money directly to the project rehabilitation in addition to adding 50 new units of affordable housing to the city’s inventory.

3. Re-issue the loan, which is currently at 5.45% interest, to the current federal rate, which is currently 3.05%.

- Creates cost savings that BRIDGE can use to re-invest in the rehabilitation and maintenance.
- Lowers the debt burden on BRIDGE so they get better loans from other agencies (County, CalHFA).

4. Agree that loan re-payments to the City will be paid “pari pasu” and (estimated) \$200,000 annually.

- City and County both receive periodic annual repayments on their loans from Montevista (called “residual receipts”).
 - Residual Receipts is surplus cash flow after payment of operating expenses and debt service.
- After buying out John Hancock as the limited partner, starting in 2019 BRIDGE will calculate repayments to both the City, County and CalHFA according to the proportion of investment each has in the Montevista apartments.
 - This proportional payback is called “pari pasu”.

5. Agree that loan payments (principal plus new interest) will be deferred for 10 years.

BRIDGE requests the City forego its payments for the first 10 years.

- Note that the County is also deferring repayment, and BRIDGE is even going to forego paying ITSELF for the first 4 years. Every available penny is being put toward the rehabilitation and maintenance of the property.

Why are these 50 units special?

- 1) 50 more units than today's inventory

"Every Unit Counts!"

- 2) No Construction, immediately available

- 3) 50 units with NO OTHER Funding Source

This is "Missing Middle" or Workforce housing – units that are deed-restricted but have suffered from no reliable source of funding since Redevelopment funds ended.

- 4) All 306 units would then be owned by Bridge Housing – 501(c)3

TODAY - Montevista

87	Apartments 50% AMI (\$66,500 income family of four)
76	Apartments 60% AMI (\$79,800 income family of four)
<u>143</u>	Apartments “ <i>Priced to Market</i> ”
306	Apartments total

AFTER Restructuring

87	Apartments 50% AMI (\$66,500 income family of four)
76	Apartments 60% AMI (\$79,800 income family of four)
50	Apartments 80% AMI (\$94,450 income family of four)
<u>93</u>	Apartments “ <i>Priced to Market</i> ”
306	Apartments total

Recommendation

- Adopt a Housing Authority resolution to direct the Executive Director to prepare and execute the loan documents for the existing Montevista Loan to authorize a short term Subordination of the City Loan to a short term lender, LIIF Housing Preservation Fund, LLC; authorize subordination to the California Housing Finance Agency for the permanent loan; revise the existing interest rate; forgive accrued interest; restructure the Housing Authority's share of the project cash flow; and, forego the first ten years of anticipated residual receipts loan payments.